

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
CLERK**

**For The Year Ended
December 31, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT OF THE
POWELL COUNTY CLERK

For The Year Ended
December 31, 2014

The Auditor of Public Accounts has completed the Powell County Clerk's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$3,254 from the prior year, resulting in excess fees of \$9,185 as of December 31, 2014. Receipts increased by \$39,449 from the prior year and disbursements increased by \$42,703.

Report Comments:

- 2014-001 The County Clerk Failed To Maintain Adequate Controls Over Payroll Processing To Ensure Accuracy
- 2014-002 The County Clerk Did Not Ensure All Timesheets Reflect Actual Hours Worked
- 2014-003 The County Clerk Failed To Maintain Adequate Controls Regarding Oversight And Review Of Daily Functions
- 2014-004 The County Clerk Failed To Ensure Adequate Controls Were In Place Over Disbursements To Ensure Accuracy And Compliance

Deposits:

The county clerk's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT.....	7
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	13
COMMENTS AND RECOMMENDATIONS.....	17



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James D. Anderson, Powell County Judge/Executive
The Honorable Rhonda A. Barnett, Powell County Clerk
Members of the Powell County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the County Clerk of Powell County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable James D. Anderson, Powell County Judge/Executive
The Honorable Rhonda A. Barnett, Powell County Clerk
Members of the Powell County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Powell County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Powell County Clerk, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Powell County Clerk for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016 on our consideration of the Powell County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Powell County Clerk's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2014-001 The County Clerk Failed To Maintain Adequate Controls Over Payroll Processing To Ensure Accuracy
- 2014-002 The County Clerk Did Not Ensure All Timesheets Reflect Actual Hours Worked

The Honorable James D. Anderson, Powell County Judge/Executive
The Honorable Rhonda A. Barnett, Powell County Clerk
Members of the Powell County Fiscal Court

Other Reporting Required by *Government Auditing Standards* (Continued)

- 2014-003 The County Clerk Failed To Maintain Adequate Controls Regarding Oversight And Review Of Daily Functions
- 2014-004 The County Clerk Failed To Ensure Adequate Controls Were In Place Over Disbursements To Ensure Accuracy And Compliance

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

March 31, 2016

POWELL COUNTY
RHONDA A. BARNETT, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Grants	\$ 11,244
HB 537 Revenue Supplement	64,618
State Fees For Services	3,868
Fiscal Court	3,910

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 446,780
Usage Tax	769,340
Tangible Personal Property Tax	944,323
Notary Fees	1,050

Other-

Fish and Game Licenses	16,157
Marriage Licenses	4,154
Deed Transfer Tax	14,802
Delinquent Tax	174,053
	<u>2,370,659</u>

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	6,447
Real Estate Mortgages	12,339
Chattel Mortgages and Financing Statements	46,360
Powers of Attorney	548
Affordable Housing Trust	11,718
All Other Recordings	18,262

Other:

Candidate Filing Fees	2,470
Elections	3,077
Car Liens	10,140
Refunds	597
Miscellaneous	500
	<u>112,458</u>

Interest Earned	<u>186</u>
-----------------	------------

Total Receipts	2,566,943
----------------	-----------

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
 RHONDA A. BARNETT, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 322,209

Usage Tax 747,542

Tangible Personal Property Tax 353,984

Licenses, Taxes, and Fees-

Fish and Game Licenses 16,022

Delinquent Tax 20,776

Legal Process Tax 13,362

Affordable Housing Trust 10,452 \$ 1,484,347

Payments to Fiscal Court:

Tangible Personal Property Tax 88,673

Delinquent Tax 17,251

Deed Transfer Tax 13,132 119,056

Payments to Other Districts:

Tangible Personal Property Tax 463,829

Delinquent Tax 81,879 545,708

Payments to Sheriff 12,898

Payments to County Attorney 23,252

Tax Bill Preparation 2,469

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries 106,524

Part-Time Salaries 22,473

Employee Benefits-

Employer's Share Social Security 14,979

Employer's Share Retirement 37,701

Employer's Paid Health Insurance 22,376

Contracted Services-

Mapping 3,500

Advertising 3,388

Lease Agreement 4,664

Libraries and Archives Grant - Microfilming 11,244

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
 RHONDA A. BARNETT, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2014
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:

Materials and Supplies-

Office Supplies \$ 11,089

Other Charges-

Conventions and Travel 3,023

Dues 480

Postage 7,854

Insurance and Bonds 254

Miscellaneous 6,604

Capital Outlay-

Office Equipment 12,394

Computer Equipment 12,486 \$ 281,033

Disallowed Disbursements (646)

Total Disbursements \$ 2,468,117

Net Receipts 98,826

Less: Statutory Maximum 82,131

Excess Fees 16,695

Less: Expense Allowance 3,600

Training Incentive Benefit 3,910 7,510

Excess Fees Due County for 2013 9,185

Payment to Fiscal Court - March 10, 2015 7,966

Balance Due Fiscal Court at Completion of Audit* \$ 1,219

* The county clerk presented a check for \$73 to the fiscal court for excess fees on November 25, 2015.
 There is a balance of \$1,146 due the fiscal court as of completion of audit.

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

POWELL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2014
 (Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

The county clerk's contribution for calendar year 2012 was \$43,391, calendar year 2013 was \$40,907, and calendar year 2014 was \$37,701.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Powell County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The county clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Powell County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$24,284. Funds totaling \$11,244 were expended during the year. The unexpended grant balance was \$13,046 with \$6 in accumulated interest as of December 31, 2014.

Note 5. Lease

The office of the county clerk was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$383 for 48 months to be completed on April 2017. The total balance of the agreement was \$10,732 as of December 31, 2014.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James D. Anderson, Powell County Judge/Executive
The Honorable Rhonda A. Barnett, Powell County Clerk
Members of the Powell County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards***

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the Powell County Clerk for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated March 31, 2016. The Powell County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Powell County Clerk's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Powell County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the Powell County Clerk's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, which are described in the accompanying comments and recommendations as items 2014-003 and 2014-004 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Powell County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-001 and 2014-002.

County Clerk's Responses to Findings

The Powell County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The Powell County Clerk's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

March 31, 2016

COMMENTS AND RECOMMENDATIONS

POWELL COUNTY
RHONDA A. BARNETT, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

STATE LAWS AND REGULATIONS:

2014-001 The County Clerk Failed To Maintain Adequate Controls Over Payroll Processing To Ensure Accuracy

The clerk's office lacked strong internal controls over the processing of timesheets. Review procedures were in place; however, they were not adequately performed to eliminate or reduce errors. Not all employees were required to submit timesheets, and one employee was paid outside the payroll system without deductions taken from the employee's paycheck. The lack of adequate review over payroll records and compliance with applicable laws led to multiple issues.

As a result of inadequate controls in place, the auditor noted the following:

- One employee was paid as a contractor but did not receive a 1099, nor were any deductions taken from the employee's check; however, the employee is essentially part-time and should have received a W-2.
- Time calculated by the auditor did not agree to timesheet for one employee.
- The auditor noted that overtime was not paid for three employees on one pay period; however, a separate check was cut outside of the payroll system that did pay them for the overtime, but no deductions were taken.
- One employee did not turn in a timecard but was paid for 40 hours and considered "salary." (See Finding 2014-002)

KRS 141.335 states that employers who are required to deduct and withhold taxes under KRS 141.310 or 141.315, shall furnish employees with a written statement that includes the total amount of wages and deductions withheld.

KRS 337.320 requires that all employers keep a record of "(a) The amount paid each pay period to each employee; (b) The hours worked each day and each week by each employee; and (c) other such information as the commissioner requires." The statute also requires these records to be kept on file for at least one year.

KRS 337.285 states, "(1) No employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed."

The clerk should strengthen controls over payroll and ensure compliance with applicable statutes and regulations. All employees should be required to submit timesheets detailing hours worked per day. Any employee working over 40 hours should be paid overtime, and it should be processed with regular payroll. The clerk should prepare a W-2 for all employees, and the clerk should ensure that all monies paid are included on the form. During review of timesheets, the clerk should check the accuracy of hours documented for pay.

POWELL COUNTY
RHONDA A. BARNETT, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

2014-001 The County Clerk Failed To Maintain Adequate Controls Over Payroll Processing To Ensure Accuracy (Continued)

County Clerk's Response: The clerk has four employees who work as salaried employees and two who work hourly and are paid as such. None of the employees work 40 hours per week in the execution of regular job duties. In the past the clerk has paid employees contract labor on occasion for work performed after hours that was not in their general job duties. Should the situation arise in the future, clerk will follow KRS 337.285. The part-time employee who received a flat rate hourly check with no deductions has been moved to the general payroll line.

2014-002 The County Clerk Did Not Ensure All Timesheets Reflect Actual Hours Worked

The clerk has an employee that is paid full-time in her office, and the employee is also compensated as a full time employee at another place of employment. The clerk does not require this person to submit a timesheet documenting actual hours worked, but the employee is paid as a full-time salary employee of the office. Auditors questioned the validity of these payments.

Improper maintenance and approval of timesheets could lead to inappropriate payments to employees for work provided. KRS 337.320 requires that all employers keep a record of the hours worked each day and week by each employee.

To ensure compliance with KRS 337.320, all employees, other than elected officials, must complete a timesheet. We recommend the clerk review timesheets prior to payment for hours worked, accuracy of calculation, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts. The approved timesheets should be submitted to fiscal court for processing of payroll.

County Clerk's Response: The clerk will comply with KRS 337.320 for all employees. The employee noted does work two jobs that qualify as full time positions. Neither of the jobs are for 40 hours per week which makes the scheduling manageable. These employers are not in the same system.

POWELL COUNTY
RHONDA A. BARNETT, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2014-003 The County Clerk Failed To Maintain Adequate Controls Regarding Oversight And Review Of Daily Functions

The clerk failed to maintain adequate oversight and review of daily office functions during calendar year 2014 to ensure accuracy. Timely review and reconciliation was not performed resulting in multiple issues, such as overdrawn account, late bills, and various inaccuracies in financial reporting.

As a result of inadequate review and reconciliation, the clerk's usage tax account was overdrawn 22 times during the calendar year resulting in \$638 in overdraft charges. There were extra monies transferred twice from the fee account to cover the overdrafts totaling \$8,000, four ACH usage tax payments to the state were submitted twice for a total of \$12,551, and a deposit in the amount of \$6,661 was submitted twice resulting in the monies coming out of the fee account twice. The auditor also noted three months where a lease payment was not made on a Xerox copier, and other months there were multiple payments.

Good internal controls dictate that strong supervisor review and oversight can reduce the risk of misstatement and uncorrected errors.

We recommend the clerk strengthen controls over daily work by providing a strong oversight and review process. This review should include reviewing daily work, payment of daily expenditures on time, review of bank statements/bank reconciliations, and providing a strong presence within the office.

County Clerk's Response: The clerk has strengthened controls in overseeing the usage tax account. Reconciliation of all other accounts was completed in a timely manner and verified by clerk. The clerk leases two Xerox copiers, therefore, there would be more than one payment within a typical month. The clerk acknowledges oversight in 2014 was not always on a daily basis due to health issues and hospitalization twice during that time.

2014-004 The County Clerk Failed To Ensure Adequate Controls Were In Place Over Disbursements To Ensure Accuracy And Compliance

The clerk did not have adequate controls over disbursements to ensure they were fully supported, valid expenses for the office, and adhere to guidelines established by the Department for Local Government (DLG). As a result, the clerk failed to ensure supporting documentation for disbursements was maintained, that all disbursements were paid by check, and that disbursements were allowable for the office.

POWELL COUNTY
RHONDA A. BARNETT, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2014
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (CONTINUED):

2014-004 The County Clerk Failed To Ensure Adequate Controls Were In Place Over Disbursements To Ensure Accuracy And Compliance (Continued)

As a result, the auditor noted the following:

- Five instances where an original invoice was not on file for a disbursement, and the clerk had to obtain a copy from the vendor.
- Six instances where the supporting documentation was not properly cancelled to prevent duplicate payment.
- One instance where the invoice had disallowed disbursements – clerk obtained a room for longer than the date of the conference, including telephone and room service charges all totaling \$646.
- One instance where an invoice was finally located in the clerk's office and not in the disbursements binder.
- Various disbursements were noted from a petty cash account maintained by the clerk instead of by check. (See Finding 2014-003)

Per the Department for Local Government (DLG) Budget Manual – Handling Public Funds Minimum Requirements Pursuant to KRS 68.210 For All Local Government Officials, disbursements should be made by check only. Making purchases from the petty cash account does not comply with this requirement.

Good internal controls dictate that disbursements be fully supported and supporting documentation be maintained.

The clerk should ensure compliance with DLG regulations by paying all disbursements by check and ensuring adequate supporting documentation is maintained. Furthermore, we recommend the clerk ensure all purchases are allowable and necessary for the office.

County Clerk's Response: The clerk acknowledges the stated invoices were not in the binder. However, all were accounted for and were for disbursements allowable for the office except one. That reimbursement has been made.

